



GREATER  
**KOKSTAD**  
MUNICIPALITY

PROVINCE OF KWAZULU-NATAL

Greater Kokstad Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2018

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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<b>LEGAL FORM OF ENTITY</b>	Local Municipality																																								
<b>MEMBERS OF THE COUNCIL</b>	<table><tr><td>Cllr B M Mtolo</td><td><b>Mayor</b></td></tr><tr><td>Cllr Z A Mhlongo</td><td><b>Speaker</b></td></tr><tr><td>Cllr K J Walker</td><td><b>Deputy Mayor</b></td></tr><tr><td>Cllr M N Dumisa</td><td><b>Member of Executive Committee</b></td></tr><tr><td>Cllr H T Mngonyama</td><td>Member</td></tr><tr><td>Cllr N Nguza</td><td>Member</td></tr><tr><td>Cllr M Figlan</td><td>Member</td></tr><tr><td>Cllr N Mavuka</td><td>Member</td></tr><tr><td>Cllr N Mfukuli</td><td>Member</td></tr><tr><td>Cllr E Bhengu</td><td>Member</td></tr><tr><td>Cllr M N L Madikizela</td><td>Member</td></tr><tr><td>Cllr Z R Tshazi</td><td>Member</td></tr><tr><td>Cllr N Lusawana</td><td>Member</td></tr><tr><td>Cllr K Putuma</td><td>Member</td></tr><tr><td>Cllr M Mgewu</td><td>Member</td></tr><tr><td>Cllr B L Marncé</td><td>Member</td></tr><tr><td>Cllr M N Dlakavu</td><td>Member</td></tr><tr><td>Cllr N N Fortein</td><td>Member</td></tr><tr><td>Cllr Z Tshangase</td><td>Member</td></tr><tr><td>Cllr T O Madikizela</td><td>Member</td></tr></table>	Cllr B M Mtolo	<b>Mayor</b>	Cllr Z A Mhlongo	<b>Speaker</b>	Cllr K J Walker	<b>Deputy Mayor</b>	Cllr M N Dumisa	<b>Member of Executive Committee</b>	Cllr H T Mngonyama	Member	Cllr N Nguza	Member	Cllr M Figlan	Member	Cllr N Mavuka	Member	Cllr N Mfukuli	Member	Cllr E Bhengu	Member	Cllr M N L Madikizela	Member	Cllr Z R Tshazi	Member	Cllr N Lusawana	Member	Cllr K Putuma	Member	Cllr M Mgewu	Member	Cllr B L Marncé	Member	Cllr M N Dlakavu	Member	Cllr N N Fortein	Member	Cllr Z Tshangase	Member	Cllr T O Madikizela	Member
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Cllr T O Madikizela	Member																																								
<b>GRADING OF LOCAL AUTHORITY</b>	Grade 3																																								
<b>MUNICIPAL MANAGER</b>	Mr L H Mapholoba																																								
<b>CHIEF FINANCE OFFICER (CFO)</b>	Mr T L Mketsu																																								
<b>REGISTERED OFFICE</b>	75 Hope Street Kokstad 4700																																								
<b>POSTAL ADDRESS</b>	P O Box 08 Kokstad 4700																																								
<b>BANKERS</b>	FNB																																								
<b>AUDITORS</b>	Auditor General South Africa (AGSA)																																								

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Index

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The reports and statements set out below comprise the annual financial statements presented to the council:

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GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act No. 56 of 2003
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 62, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the salaries, benefits and allowances as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the constitution, read with the Remuneration of Public Officers Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 62, are prepared on the basis that the municipality is a going concern and has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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**Municipal Manager**  
**Mr L.H MAPHOLOBA**

**31 August 2018**

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

	Notes	2018 R	2017 R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	1,501,209	825,036
Receivables from non-exchange transactions	3	16,937,121	14,935,829
VAT receivable	4	2,311,533	-
Prepayments	5	1,372,584	435,336
Trade receivables	6	28,927,001	31,561,498
Cash and cash equivalents	7	114,262,305	125,284,575
		<b>165,311,753</b>	<b>173,042,274</b>
<b>Non-Current Assets</b>			
Investment property	8	93,526,497	92,326,256
Property, plant and equipment	9	487,055,128	453,842,714
Intangible assets	10	1,947,106	278,523
Heritage assets	11	1,112,400	1,112,400
		<b>583,641,131</b>	<b>547,559,893</b>
<b>Total Assets</b>		<b>748,952,884</b>	<b>720,602,167</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	-	1,090,983
Payables from exchange transactions	13	30,210,341	36,307,956
Consumer deposits	14	4,198,996	4,173,961
Unspent conditional grants and receipts	15	12,035,172	13,997,785
Provisions	16	2,514,652	2,775,582
Deferred income	17	5,279,478	2,225,607
VAT payable	18	-	661,217
		<b>54,238,639</b>	<b>61,233,091</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	19	15,016,006	13,720,441
<b>Total Liabilities</b>		<b>69,254,645</b>	<b>74,953,532</b>
<b>Net Assets</b>		<b>679,698,239</b>	<b>645,648,635</b>
Accumulated surplus		679,698,239	645,648,636

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

	Notes	2018 R	2017 R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	118,707,755	128,596,038
Rental of facilities and equipment	23	1,410,249	1,269,273
Licences and permits		3,216,351	3,044,570
Other revenue	24	3,521,649	796,277
Interest earned - external investments	20	9,777,018	7,896,117
<b>Total revenue from exchange transactions</b>		<b>136,633,022</b>	<b>141,602,275</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	94,601,966	80,710,506
Interest earned - outstanding receivables	25	4,042,254	4,983,822
Debtors impairment recovery	6	692,302	6,084,455
<b>Transfer revenue</b>			
Government grants and subsidies	26	98,616,459	83,379,899
Public contributions and donations	27	-	17,000
Fines		1,868,627	1,678,102
Fines impairment recovery	3	1,636,104	1,207,844
Provision for performance recovery of bonuses	16	2,299,741	715,461
<b>Total revenue from non-exchange transactions</b>		<b>203,757,453</b>	<b>178,777,089</b>
<b>Total revenue</b>	22	<b>340,390,475</b>	<b>320,379,364</b>
<b>Expenditure</b>			
Employee costs	28	(100,481,843)	(98,295,341)
Remuneration of councillors	29	(6,969,793)	(6,038,304)
Depreciation and amortisation	30	(34,612,231)	(25,963,119)
Impairment loss	31	(320,463)	(12,701,868)
Finance costs	32	(22,822)	(497,704)
Debt written off	33	(5,671,925)	(9,395,958)
Bulk purchases	34	(84,005,005)	(80,966,910)
Contracted services	50	(33,754,259)	(23,548,039)
General Expenses	35	(36,096,711)	(32,275,399)
<b>Total expenditure</b>		<b>(301,935,052)</b>	<b>(289,682,642)</b>
<b>Operating surplus (deficit)</b>		<b>38,455,423</b>	<b>30,696,722</b>
Gain / (Loss) on disposal of assets and liabilities		(5,532,283)	(4,170,389)
Gain / (Loss) on Actuarial		(73,835)	6,922,268
Fair value adjustments		1,200,241	5,063,217
		<b>(4,405,877)</b>	<b>7,815,096</b>
<b>Surplus for the year</b>		<b>34,049,546</b>	<b>38,511,818</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance	572,820,313	572,820,313
Surplus for the year	34,163,066	34,163,066
<b>Balance at 01 July 2016</b>	<b>606,983,381</b>	<b>606,983,381</b>
Changes in net assets		
Surplus for the year	38,511,818	38,511,818
Adjustment to WIP	153,437	153,437
Total changes	38,665,255	38,665,255
<b>Balance at 01 July 2017</b>	<b>645,648,693</b>	<b>645,648,693</b>
Changes in net assets		
Surplus for the period	34,049,546	34,049,546
Total changes	34,049,546	34,049,546
<b>Balance at 30 June 2018</b>	<b>679,698,239</b>	<b>679,698,239</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

	Notes	2018 R	2017 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxes		104,417,006	98,576,082
Sale of goods and services		120,954,519	114,462,748
Grants		96,653,846	91,885,737
Interest income		9,777,018	7,896,117
Other receipts		1,868,627	1,695,101
		<u>333,671,016</u>	<u>314,515,785</u>
<b>Payments</b>			
Employee costs		(102,392,386)	(98,342,643)
Suppliers		(161,537,013)	(138,999,118)
Finance costs		(22,822)	(497,704)
		<u>(263,952,221)</u>	<u>(237,839,465)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>69,718,795</u></b>	<b><u>76,676,320</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(73,463,155)	(37,337,616)
Proceeds from sale of property, plant and equipment	9	(5,532,283)	-
Purchase of other intangible assets	10	(1,878,142)	-
Proceeds on write of asset	11	(268,167)	-
Other movements	11	(320,463)	-
Rentention capitalised		(557,703)	-
<b>Net cash flows from investing activities</b>		<b><u>(82,019,913)</u></b>	<b><u>(37,337,616)</u></b>
<b>Cash flows from financing activities</b>			
Movement in Borrowings		(1)	(490,606)
Movement in deferred income		3,053,871	(17,261)
Movement in other liability		(661,217)	-
Finance lease movement		(1,113,805)	(1,913,605)
<b>Net cash flows from financing activities</b>		<b><u>1,278,848</u></b>	<b><u>(2,421,472)</u></b>
<b>Net increase in cash and cash equivalents</b>		<b><u>(11,022,270)</u></b>	<b><u>36,917,232</u></b>
Cash and cash equivalents at the beginning of the year		125,284,575	88,367,345
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>114,262,305</u></b>	<b><u>125,284,576</u></b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance details per note 51	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>2018</b>											
<b>Financial Performance</b>											
Property rates	101,524,000	-	101,524,000	-		101,524,000	94,601,966		(6,922,034)	93 %	93 %
Service charges	138,908,000	1,826,000	140,734,000	-		140,734,000	118,707,755		(22,026,245)	84 %	85 %
Investment revenue	7,275,000	771,000	8,046,000	-		8,046,000	9,777,018		1,731,018	122 %	134 %
Transfers recognised - operational	60,673,000	(3,865,000)	56,808,000	-		56,808,000	54,572,926		(2,235,074)	96 %	90 %
Other own revenue	9,435,000	50,000	9,485,000	-		9,485,000	18,687,277		9,202,277	197 %	198 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>317,815,000</b>	<b>(1,218,000)</b>	<b>316,597,000</b>	<b>-</b>		<b>316,597,000</b>	<b>296,346,942</b>		<b>(20,250,058)</b>	<b>94 %</b>	<b>93 %</b>
Employee costs	(121,033,000)	-	(121,033,000)	-	-	(121,033,000)	(100,481,843)	-	20,551,157	83 %	83 %
Remuneration of councillors	(7,429,000)	-	(7,429,000)	-	-	(7,429,000)	(6,969,793)	-	459,207	94 %	94 %
Debt impairment	(8,907,000)	-	(8,907,000)			(8,907,000)	(5,671,925)	-	3,235,075	64 %	64 %
Depreciation and asset impairment	(63,138,000)	11,000,000	(52,138,000)			(52,138,000)	(34,932,694)	-	17,205,306	67 %	55 %
Finance charges	(1,782,000)	-	(1,782,000)	-	-	(1,782,000)	(22,822)	-	1,759,178	1 %	1 %
Materials and bulk purchases	(94,829,000)	-	(94,829,000)	-	-	(94,829,000)	(84,005,005)	-	10,823,995	89 %	89 %
Contracted services	(39,502,000)	(7,527,000)	(47,029,000)	-	-	(47,029,000)	(33,754,259)	-	13,274,741	72 %	85 %
Other expenditure	(33,490,000)	42,000	(33,448,000)	-	-	(33,448,000)	(36,096,711)	-	(2,648,711)	108 %	108 %
<b>Total expenditure</b>	<b>(370,110,000)</b>	<b>3,515,000</b>	<b>(366,595,000)</b>	<b>-</b>	<b>-</b>	<b>(366,595,000)</b>	<b>(301,935,052)</b>	<b>-</b>	<b>64,659,948</b>	<b>82 %</b>	<b>82 %</b>
<b>Surplus/(Deficit)</b>	<b>(52,295,000)</b>	<b>2,297,000</b>	<b>(49,998,000)</b>	<b>-</b>		<b>(49,998,000)</b>	<b>(5,588,110)</b>		<b>44,409,890</b>	<b>11 %</b>	<b>11 %</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	27,550,000	16,041,000	43,591,000	-		43,591,000	44,043,533		452,533	101 %	160 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	(73,835)		(73,835)	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(24,745,000)</b>	<b>18,338,000</b>	<b>(6,407,000)</b>	<b>-</b>		<b>(6,407,000)</b>	<b>38,381,588</b>		<b>44,788,588</b>	<b>(599)%</b>	<b>(155)%</b>
Loss on disposal of assets and liabilities	-	-	-	-		-	5,532,283		5,532,283	DIV/0 %	DIV/0 %
Fair value adjustment	-	-	-	-		-	1,200,241		1,200,241	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>(24,745,000)</b>	<b>18,338,000</b>	<b>(6,407,000)</b>	<b>-</b>		<b>(6,407,000)</b>	<b>34,049,546</b>		<b>40,456,546</b>	<b>(531)%</b>	<b>(138)%</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	63,705,004	-	63,705,004	-		63,705,004	45,569,234		(18,135,770)	72 %	72 %

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Standards issued but not effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality are as follows:

GRAP 32	Services Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statement
GRAP 36	Investments in Associates and Joint Venture
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interest in Other Entities
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-Living Resources

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 20	Related Party Disclosures
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#### 1.4 Critical judgements, estimates and assumptions

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 Critical judgements, estimates and assumptions (continued)

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

### 1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction cost once it meets the definition of investment property. Investment Property is initially recognised when future economic benefits or service potential are probable and the cost or fair value can be determined reliably.

The cost of self-constructed investment property is the cost at date of completion.

#### Subsequent measurement - Fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

#### Derecognition

Investment property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property.

All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

### 1.6 Property, plant and equipment

#### 1.6.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

#### 1.6.2 Initial measurement

Items of property plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. These assets have been revalued in line with the transitional provisions, and have been recorded at Depreciated Replacement Cost. The cost of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired is acquired by the municipality for no or nominal consideration (i.e a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### 1.6.3 Subsequent measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### 1.6.4 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have useful lives that are depreciated separately.

Land is not depreciated as it is deemed to have indefinite useful life.

Capital work in progress is not depreciable until it is transferred to the applicable property, plant and equipment category once it is ready and available for its intended use.

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimates in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset maybe impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount) and an impairment amount is charged to the Statement of Financial Performance.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Buildings	Straight line	80 years
Motor vehicles	Straight line	5-7 years
Infrastructure	Straight line	
• Roads and pavings		20 years
• Bridges		30 years
• Storm water		15 years
• Gravel		20 years
• Substation and Transformers		40 years
• Poles, Cables and Lights		15-25 years
• Robots		10 years
Community	Straight line	
• Buildings		80 years
• Recreational facilities		5 years
• Security system		5 years
• Dams		1-15 years
• Libraries		15-20 years
• Parks and Gardens		15 years
• Cemeteries		15-20 years
• Community centres		5-20 years

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# Greater Kokstad Local Municipality

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### 1.6 Property, plant and equipment (continued)

Other property, plant and equipment

Straight line

• Emergency equipment	5 years
• Landfill sites	15 years
• Office equipment	5 years
• Furniture and fittings	5 years
• Bins and containers	5 years
• Computers equipment	5-8 years

### 1.7 Intangible assets

#### Initial Recognition

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. A heritage asset shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- (b) the cost or fair value of the asset can be measured reliably.

#### Initial Measurement

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### Subsequent Measurement

Heritage assets are not depreciated based on their nature however the municipality assesses at each reporting date whether there is a need for impairment.

The class of heritage assets are carried at its cost less any accumulated impairment losses.

#### Derecognition

The carrying amount of a heritage asset is derecognised:

- (a) on disposal, or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

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### 1.8 Intangible Assets

#### Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential;
- the municipality has the ability to measure reliably the expenditure during development."

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

#### Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Residual value of intangible assets is estimated to be zero. Fully depreciated assets which are still in use are not written off.

#### Amortisation

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 8 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality test intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### Derecognition

Intangible assets are derecognised when the assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

# Greater Kokstad Local Municipality

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## Accounting Policies

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### 1.9 Financial instruments

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities

#### Financial Assets - Classification

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Unlisted investments
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with GRAP 104, the Financial Assets of the municipality are classified as follows into the categories allowed by this standard:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial assets at amortised cost
Bank Balances and Cash	Financial assets at amortised cost
Long-term Receivables	Financial assets at amortised cost
Consumer Debtors	Financial assets at amortised cost
Other Debtors	Financial assets at amortised cost
Investments in Fixed Deposits	Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits).

Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets held at amortised cost.

#### Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Trade and other payables
- Short-term loans

Financial Liabilities of the municipality are classified into the following category as allowed by this standard.

#### Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially measured at fair value, net of transaction costs. These are subsequently measured at amortised cost using the Effective interest method, with interest expense recognised on an effective yield basis.

#### Initial and Subsequent Measurement

##### Financial Assets

Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less, any impairment, with interest recognised on an effective yield basis in surplus/deficit.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Financial instruments (continued)

Financial assets are recognised on the trade date at which the municipality becomes party to the contractual provisions of the instrument.

#### Financial Liabilities

Financial Liabilities at amortised cost are initially measured at fair value net of transaction costs.

Subsequently, these liabilities are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

#### Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104

An allowance for impairment is based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable and are recognized in surplus or deficit for the year.

An allowance for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables.

Changes in the carrying amount of the allowance for impairment are recognized in surplus or deficit for the year.

#### Derecognition of Financial Assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### 1.10 Trade and other receivables

#### Consumer Debtors per impairment category

##### Category A

- Regular payers and Government Accounts - 0%
- Consumers with accounts not older than 60 days, and;
- Government.

##### Category B

- Regular payers (50% less than 180 days and 100% on rest); and
- Amounts owing but do pay.

##### Category C

- Doubtful 100% all amounts;
- Consumers with no payment history;
- Owing longer than 60 days with no payments for 6 months; and
- Inactive accounts.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 Trade and other receivables (continued)

#### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognise the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.11 Leases

#### The Municipality as lessee

##### Recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payment due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payment, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

##### Measurement

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies application to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayments using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies related to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful lives or the lease term.

##### Derecognition

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the entity's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the entity no longer anticipates economic benefits to flow from the asset.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Leases (continued)

#### The Municipality as Lessor

For those leases that meet the definition of a finance lease, where the entity is the lessor, the entity derecognises the asset subject to the lease at the inception of the lease. Along with the derecognition of the asset the entity recognises a finance lease receivable. Finance lease income is allocated to between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the Statement of Financial Performance as it accrues.

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### Measurement

Finance lease receivables are recognised at an amount equal to the entity's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

#### Derecognition

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

### 1.12 Inventories

#### Initial recognition and measurement

Inventories comprise current assets not held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.12 Inventories (continued)

#### Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down to its net realisable value. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### Cost formulas

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.

#### Derecognition

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that the cost qualifies for capitalisation to the cost of another asset.

### 1.13 Non-current assets held for sale and disposal groups

#### 1.14 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### 1.15 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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### 1.15 Impairment of non-cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.16 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.17 Post-employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.17 Post-employee benefits (continued)

#### Medical Aid

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actual valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the value projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### 1.18 Provisions

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 1.18 Provisions (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

### 1.19 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

# Greater Kokstad Local Municipality

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### 1.20 Revenue from non-exchange transactions

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.21 Value Added Taxation

The Municipality accounts for Value Added Tax on the payment basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed in the Statement of Financial Position in terms of GRAP 1.

### 1.22 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### 1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.24 Unauthorised expenditure

Unauthorised expenditure is an expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.25 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.26 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.27 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.28 Budget information

Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 Jul 2017 to 30 Jun 2018.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>2. Inventories</b>		
Stores and materials	1,501,209	825,036
<b>3. Receivables from non-exchange transactions</b>		
Fines	10,249,521	7,569,872
SETA	1,434,496	1,741,239
Municipal Infrastructure Grant	1,525,701	450,558
Cigicell	-	166,535
National Treasury	-	1,324,000
Sundry debtors	3,727,403	3,135,416
Add: Debtors with credit balances	-	548,209
	<b>16,937,121</b>	<b>14,935,829</b>
<b>Fines Reconciliation</b>		
Opening Balance	16,057,430	15,138,837
Opening Impairment of fines	(8,487,558)	(9,695,401)
Current year fines	1,043,545	918,593
Current year adjustment in impairment	1,636,104	1,207,844
	<b>10,249,521</b>	<b>7,569,873</b>
<b>4. VAT receivable</b>		
VAT receivable	2,311,533	-
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
<b>5. Prepayments</b>		
Sage license	68,934	72,765
Firewall license	64,026	-
Customer care license	63,000	-
Munsoft license	-	109,876
Serenity insurance	931,414	-
Microsoft licenses	245,212	252,695
	<b>1,372,586</b>	<b>435,336</b>
<b>6. Trade receivables</b>		
<b>Gross balances</b>		
Rates from non exchange transactions	18,719,657	23,312,412
Electricity from exchange transactions	12,418,379	13,332,659
Refuse from exchange transactions	18,092,797	16,097,821
Fire Levy from exchange transactions	1,815,300	1,615,694
	<b>51,046,133</b>	<b>54,358,586</b>
<b>Less: Allowance for impairment</b>		
Rates from non exchange transactions	(11,759,659)	(12,127,722)
Electricity from exchange transactions	(1,176,475)	(1,213,297)
Refuse from exchange transactions	(8,317,232)	(8,577,551)
Fire Levy from exchange transactions	(865,797)	(892,895)
	<b>(22,119,163)</b>	<b>(22,811,465)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Trade receivables (continued)</b>		
<b>Net balance</b>		
Rates from non exchange transactions	6,960,026	11,184,690
Electricity from exchange transactions	11,241,907	12,119,362
Refuse from exchange transactions	9,775,565	7,520,271
Fire Levy from exchange transactions	949,503	737,175
	<b>28,927,001</b>	<b>31,561,498</b>
<b>Rates</b>		
Current (0 -30 days)	3,779,471	3,066,024
31 - 60 days	1,400,632	1,521,573
61 - 90 days	554,169	577,588
91 - 120 days	280,191	394,523
121 - 365 days	1,123,142	17,738,600
> 365 days	11,582,051	-
	<b>18,719,656</b>	<b>23,298,308</b>
<b>Electricity</b>		
Current (0 -30 days)	7,779,900	8,140,055
31 - 60 days	1,662,593	1,910,127
61 - 90 days	389,108	805,901
91 - 120 days	291,145	381,258
121 - 365 days	994,847	2,095,318
> 365 days	1,300,786	-
	<b>12,418,379</b>	<b>13,332,659</b>
<b>Refuse</b>		
Current (0 -30 days)	2,163,073	1,512,660
31 - 60 days	1,407,129	1,066,538
61 - 90 days	1,064,792	735,841
91 - 120 days	887,249	698,950
121 - 365 days	3,873,947	12,557,072
> 365 days	8,696,606	-
	<b>18,092,796</b>	<b>16,571,061</b>
<b>Fire Levy from exchange transactions</b>		
Current (0 -30 days)	110,627	74,606
31 - 60 days	77,445	58,666
61 - 90 days	63,377	46,211
91 - 120 days	51,957	43,619
121 - 365 days	249,486	1,392,592
> 365 days	1,262,408	-
	<b>1,815,300</b>	<b>1,615,694</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Trade receivables (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Residential</b>		
Current (0 -30 days)	3,596,285	3,481,355
31 - 60 days	2,573,581	2,077,494
61 - 90 days	1,686,626	1,370,513
91 - 120 days	1,143,153	838,862
121 - 365 days	1,143,153	17,460,034
> 365 days	27,540,750	-
	37,683,548	25,228,258
Add: debtors with credit balances	-	2,282,012
	<b>37,683,548</b>	<b>27,510,270</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	8,251,211	7,240,620
31 - 60 days	1,866,961	1,987,184
61 - 90 days	383,139	677,296
91 - 120 days	367,114	491,667
121 - 365 days	360,307	3,619,537
> 365 days	719,699	8,357,148
	11,948,431	22,373,452
Add: debtors with credit balances	-	2,536,302
	<b>11,948,431</b>	<b>24,909,754</b>
<b>National and provincial government</b>		
Current (0 -30 days)	1,985,576	420,665
31 - 60 days	107,258	172,787
61 - 90 days	1,681	185,464
91 - 120 days	275	159,142
121 - 365 days	(546,222)	58,382
> 365 days	(471,928)	73,125
	1,076,640	1,069,565
Add: debtors with credit balances	-	75,255
	<b>1,076,640</b>	<b>1,144,820</b>
<b>Total</b>		
Current (0 -30 days)	13,833,072	11,142,641
31 - 60 days	4,547,800	4,237,465
61 - 90 days	2,071,446	2,233,273
91 - 120 days	1,510,542	1,489,671
121 - 365 days	6,241,423	29,874,624
> 365 days	20,479,001	-
	48,683,284	48,977,674
Less: Allowance for impairment	(22,119,163)	(22,338,225)
Add debtors with credit balances	2,362,849	4,893,568
	<b>28,926,970</b>	<b>31,533,017</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(2,761,929)	(815,807)
31 - 60 days	(1,320,921)	(820,264)
61 - 90 days	(2,882,012)	(818,520)
91 - 120 days	(780,545)	(784,758)
121 - 365 days	(14,373,756)	(19,572,116)

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Trade receivables (continued)</b>		
	<b>(22,119,163)</b>	<b>(22,811,465)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(22,811,465)	(28,895,920)
Debt impairment written off against allowance	692,302	6,084,455
	<b>(22,119,163)</b>	<b>(22,811,465)</b>

### Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,985,576	2,869,358
2 months past due	167,258	951,970
3 months past due	1,080,006	3,824,054

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	12,333	12,333
Bank balances	6,157,561	5,583,180
Call deposits	108,092,411	119,689,062
	<b>114,262,305</b>	<b>125,284,575</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2018	30 June 2017	June 2018	30 June 2017
FNB Primary Account - 527-2002-4258	1,769,851	9,888,978	6,157,561	5,583,180
FNB - 620-4994-7825	27,207,835	44,820,755	27,207,835	44,820,755
FNB - 622-9521-8947	1,000	2,456	1,000	2,469
FNB - 620-6810-2682	24,472	24,292	24,482	24,292
FNB - 620-8937-2868	1,000	2,829,141	1,000	362,725
FNB - 620-8992-7663	2	2	2	2
FNB - 621-9170-1476	7,274	133,804	7,274	430
FNB - 621-0368-9230	1,093,294	1,038,810	1,093,294	1,038,810
FNB - 621-9024-8221	2,431,270	2,309,931	2,431,270	2,309,930
STD - 308-644-085	9,293,055	12,630,174	5,233,651	12,630,174
NED - 0371-6501-3687	76,954	72,124	76,948	72,124
FNB - 623-0064-1611	2,221	2,205	2,221	2,211
NED - 716-501-3660	1,819	1,819	1,819	135,324
NED - 0371-6501-4276	101,741	320,955	101,741	95,355
ABSA - 207-483-6976	18,886,741	17,704,906	19,009,217	17,639,802
STANDARD BANK RESERVE ACCOUNT	13,284,558	17,787,086	19,314,958	17,787,086
NEDBANK RESERVE ACCOUNT	18,529,175	17,711,412	19,121,958	17,711,412
DOE - 63875-1558-80001	-	5,056,161	3,946,056	5,056,161
Ithala Bank	10,517,685	-	10,517,685	-
<b>Total</b>	<b>103,229,947</b>	<b>132,335,011</b>	<b>114,249,972</b>	<b>125,272,242</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 8. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land & Buildings	93,526,497	-	93,526,497	92,326,256	-	92,326,256

#### Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Land & Buildings	92,326,256	1,200,241	93,526,497

#### Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Land & Buildings	87,263,039	5,063,217	92,326,256

#### Details of valuation

The effective date of the revaluations was 1 July 2017. Revaluations were performed by an independent valuer, Mr Botha [SACPVP, IAAO & GIS], of HCB Property valuations. Botha is not connected to the entity and has recent experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

For investment property, where there was a lack of comparable market data, the valuation was based on discounted cash flows. The following assumptions were used:

These assumptions are based on current market conditions.

The last valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations. Valuations are performed every 5 years.

The following assumption were used:

#### Fair value adjustment

The new values for 2018 were calculated by escalation of previous financial year's CRC. The factor used to escalate CRC for 2018 and fair value is 13%

The CRC values of land are same as in the previous year because the Consumer Price Index and South African Forum of Civil Engineers Contractors escalation is not applicable to land but to improvements to the land (i.e. assets built on the land). Land shall be adjusted when another land valuation is undertaken by Council as per policy.

8.1 Rental revenue from investment property	1,130,487	1,123,618
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There were no repairs and maintenance costs incurred on Investment properties (for both rental generating and non-rental generating).

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	124,893,488	(89,292,418)	35,601,070	124,893,488	(88,000,970)	36,892,518
Motor vehicles	11,721,357	(8,289,448)	3,431,909	10,038,280	(7,099,069)	2,939,211
Infrastructure	608,963,994	(310,222,069)	298,741,925	578,441,752	(288,312,507)	290,129,245
Community	191,092,069	(97,928,427)	93,163,642	184,068,611	(94,335,681)	89,732,930
Other property, plant and equipment	39,891,619	(25,773,640)	14,117,979	26,593,777	(22,953,710)	3,640,067
Capital work in progress Community	41,998,603	-	41,998,603	30,508,743	-	30,508,743
<b>Total</b>	<b>1,018,561,130</b>	<b>(531,506,002)</b>	<b>487,055,128</b>	<b>954,544,651</b>	<b>(500,701,937)</b>	<b>453,842,714</b>

### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Other changes, movements	Depreciation	Impairment loss	Total
Land and Buildings	36,892,518	-	-	-	(1,291,448)	-	35,601,070
Motor vehicles	2,939,211	1,683,076	-	-	(916,491)	(273,887)	3,431,909
Infrastructure	290,129,245	-	39,968,917	(5,532,283)	(25,823,954)	-	298,741,925
Community	89,732,930	-	7,023,458	-	(3,592,746)	-	93,163,642
Other property, plant and equipment	3,640,067	13,297,844	-	-	(2,773,357)	(46,575)	14,117,979
Capital work in progress	30,508,743	58,482,235	(46,992,375)	-	-	-	41,998,603
	<b>453,842,714</b>	<b>73,463,155</b>	<b>-</b>	<b>(5,532,283)</b>	<b>(34,397,996)</b>	<b>(320,462)</b>	<b>487,055,128</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land and Buildings	38,321,044	-	-	-	(1,428,526)	-	36,892,518
Motor vehicles	1,688,003	2,350,283	(35,420)	-	(1,043,148)	(20,507)	2,939,211
Infrastructure	303,291,458	-	(4,134,969)	19,873,622	(17,295,351)	(11,605,515)	290,129,245
Community	66,186,526	-	-	26,968,833	(3,422,429)	-	89,732,930
Other property, plant and equipment	4,461,670	3,033,807	-	-	(2,779,565)	(1,075,845)	3,640,067
Capital work in progress	45,397,672	31,953,526	-	(46,842,455)	-	-	30,508,743
	<b>459,346,373</b>	<b>37,337,616</b>	<b>(4,170,389)</b>	<b>-</b>	<b>(25,969,019)</b>	<b>(12,701,867)</b>	<b>453,842,714</b>

#### Pledged as security

None of the assets pledged as security:

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Heritage	Total
Opening balance	13,631,381	16,877,361	-	30,508,742
Additions/capital expenditure	39,904,292	1,486,420	784,000	42,174,712
Transferred to completed items	(39,968,825)	(7,023,458)	-	(46,992,283)
	<b>13,566,848</b>	<b>11,340,323</b>	<b>784,000</b>	<b>25,691,171</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 9. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	12,355,353	33,042,319	45,397,672
Additions/capital expenditure	21,543,141	10,410,385	31,953,526
Other movements (Retentions and adjustments)	(393,491)	393,491	-
Transferred to completed items	(19,873,622)	(26,968,834)	(46,842,456)
	<b>13,631,381</b>	<b>16,877,361</b>	<b>30,508,742</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 10. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4,058,698	(2,111,592)	1,947,106	2,180,556	(1,902,033)	278,523

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	278,523	1,878,142	(209,559)	1,947,106

#### Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	272,583	5,940	278,523

#### Pledged as security

None of intangible assets pledged as security:

#### Assessment of useful life

The municipality has revalued intangible assets with zero book value.

### 11. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museum	1,112,400	-	1,112,400	1,112,400	-	1,112,400

#### Reconciliation of heritage assets 2018

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 11. Heritage assets (continued)

	Opening balance	Total
Museum	1,112,400	1,112,400

### Reconciliation of heritage assets 2017

	Opening balance	Total
Museum	1,112,400	1,112,400

### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	-	1,353,047
	-	1,353,047
less: future finance charges	-	(262,109)
<b>Present value of minimum lease payments</b>	<b>-</b>	<b>1,090,938</b>

#### Present value of minimum lease payments due

- within one year	-	1,090,938
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The average lease term was 5 years and the average effective borrowing rate is 11% (2017: 11%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent. Obligation under finance leases are secured by the lessor's title to the leased asset.

The municipality has no finance lease obligations for the year under review.

### 13. Payables from exchange transactions

Trade payables	798,793	2,272,693
Unknown deposits	12,111,715	9,949,540
Accrued leave pay	6,280,022	5,473,740
Other payables	830,754	523,235
Add: Debtors with credit balances	2,773,437	5,441,777
Retentions	2,395,929	2,953,631
Creditor accruals	5,019,691	9,693,340
	<b>30,210,341</b>	<b>36,307,956</b>

The fair value of trade and other payables approximates their carrying amounts.

### 14. Consumer deposits

Electricity	4,198,996	4,173,961
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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
Intergrated National Electrification Programme	255,349	4,476
Furniture world	226,413	98,395
Horseshoe Township	1,476,418	1,421,935
IDP Community participation	85,672	85,672
Industrial Park	177,382	177,382
Peoples Housing Project 12 and 13	28,143	27,984
Shayamoya Eco- Complex	31,743	31,743
Small Town Rehabilitation	323,442	12,026,847
Cultural Village (Cogta)	5,000,000	-
Sports & Recreation	-	123,351
Emergency Equipment Grant	4,430,610	-
	<b>12,035,172</b>	<b>13,997,785</b>

## 16. Provisions

### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for performance bonus	2,775,582	2,514,652	(475,841)	(2,299,741)	2,514,652

### Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for performance bonus	2,083,866	2,775,582	(1,368,405)	(715,461)	2,775,582

Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date.

The balance of the performance bonus provisions relate to amounts not yet paid and eligible employees awaiting assessment for 2017/2018 financial year.

## 17. Deferred Income

Electricity units purchases unused	1,691,873	573,884
Deferred revenue	1,935,882	-
Sale of land	1,651,723	1,651,723
	<b>5,279,478</b>	<b>2,225,607</b>

Income was received for the sale of land which the risks and rewards are still with the municipality. This refers to Erf 103 (Caravan Park) and Erf 104 which is vacant land. The sale has not been finalised as the necessary documents has not been lodged at the Deeds Office.

## 18. VAT payable

VAT payable	-	661,217
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>19. Retirement benefits and long term service awards</b>		
<b>Defined benefit plan</b>		
The plan is a post employment medical benefit plan.		
<b>Post employment health care benefits</b>		
Present value of the defined benefit obligation - wholly unfunded	(9,982,655)	(14,864,871)
Net actuarial gains or (losses) recognised	(429,360)	6,240,052
Current service cost	(205,057)	(516,444)
Interest paid	(894,879)	(1,350,372)
Contributions by employer	516,587	508,980
	<b>(10,995,364)</b>	<b>(9,982,655)</b>
<b>Long service awards</b>		
Opening balance	(3,737,786)	(3,745,733)
Net actuarial gains and (losses) not recognised	(68,010)	312,780
Current service cost	(341,241)	(368,979)
Interest cost	(297,140)	(305,290)
Contributions by employer	423,535	369,436
	<b>(4,020,642)</b>	<b>(3,737,786)</b>
<b>Total retirement benefits and long term service awards</b>		
Post employment health care benefits	(10,995,364)	(9,982,655)
Long service awards	(4,020,642)	(3,737,786)
	<b>(15,016,006)</b>	<b>(13,720,441)</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018	2017
	R	R

### 19. Retirement benefits and long term service awards (continued)

#### PeHCL report

Assumptions used at the reporting date:

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018  
R

2017  
R

Post-Employment Medical Aid subsidy liability

### Key Financial Assumptions

Assumption	Value p.a.
Discount rate	9.38%
Health care cost inflation rate	7.27%
<i>Net-of-health-care-cost-inflation discount rate</i>	<i>1.97%</i>
Maximum subsidy inflation rate	5.08%
<i>Net-of-maximum-subsidy-inflation discount rate</i>	<i>4.09%</i>

### Key Demographic Assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Continuation of membership at retirement	100%		
Proportion with a spouse dependant at retirement	90%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA(90) -1		
Withdrawal from service (sample annual rates)	<b>Age</b>	<b>Females</b>	<b>Males</b>
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	55	2%	2%

### SENSITIVITY ANALYSIS

Note to Table 7.1: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

Assumption	Change	In-service members	Retired members	Total	% change
<b>Central assumptions</b>		4.091	6.905	10.995	
<b>Health care inflation</b>	+1%	4.269	7.027	11.296	3%
	-1%	3.824	6.700	10.524	-4%
<b>Discount rate</b>	+1%	3.485	6.374	9.859	-10%
	-1%	4.849	7.519	12.368	12%
<b>Post-retirement mortality</b>	-1 yr	4.185	7.129	11.315	3%
<b>Average retirement age</b>	-1 yr	4.419	6.905	11.324	3%
<b>Continuation of membership at retirement</b>	-10%	3.709	6.905	10.613	-3%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018	2017
R	R

Table A5.2 Balance Sheet Figures

Balance Sheet	Year ending 30/06/2018	Year ending 30/06/2019
Fair Value of Plan Assets	-	-
Accrued Liability	10,995,364	11,517,205
<b>Unfunded Accrued Liability</b>	<b>10,995,364</b>	<b>11,517,205</b>
Unrecognised Transitional Liability	-	-
Unrecognised Actuarial Gains/(Losses)	-	-
Unrecognised Past Service Cost	-	-
Miscellaneous Item	-	-
<b>Net Liability in Balance Sheet</b>	<b>10,995,364</b>	<b>11,517,205</b>

Table A5.3 Reconciling and Projecting the Unfunded Accrued Liability

	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Opening Accrued Liability	9,982,655	10,995,364	11,517,205
Current-Service Cost	205,057	180,074	196,965
Interest Cost	894,879	1,001,134	1,047,885
Expected Contributions (benefits paid)	* (516,587)	(659,367)	(707,303)
<b>Total Annual Expense</b>	<b>583,349</b>	<b>521,841</b>	<b>537,547</b>
Actuarial Loss / (Gain)	429,360	-	-
<b>Closing Accrued Liability</b>	<b>10,995,364</b>	<b>11,517,205</b>	<b>12,054,752</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018	2017
R	R

### Long Service Award liability

#### A2.3 Demographic Assumptions

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA.

Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 6.15% per annum for all employees.

Table 5.2: Key demographic assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Mortality during employment	SA 85-90		
Withdrawal from service (sample annual rates)	Age	Female	Male
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	55	2%	2%

#### Pre-retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:

The normal retirement age is 65 for males and 60 for females. It has been assumed that male employees will retire at age 63 and female employees will retire at age 58, on average, which then implicitly allows for expected rates of ill-health and early retirement.

Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Table A2.2: Sample withdrawal rates

Age	Females	Males
20	24%	16%
25	24%	16%
30	18%	12%
35	15%	10%
40	10%	8%
45	6%	6%
50	4%	4%
55	2%	2%
> 55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018	2017
R	R

Table 5.1 summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year.

*Table 5.1: Key financial assumptions*

Assumption	Value p.a.
Discount rate	8.53%
General salary inflation (long-term)	6.15%
Net effective discount rate	2.24%

The salaries provided for the valuation include an assumed increase on 1 July 2018 of 7%. The next salary increase was assumed to take place on 1 July 2019.

*Table 6.4: Comparison of assumptions*

Assumptions	30/06/2017	30/06/2018
Discount rate	8.42%	8.53%
General salary inflation (long-term)	6.24%	6.15%
Net discount rate	2.05%	2.24%
Average retirement age	63 for males; 58 for females	
Pre-retirement mortality	SA85-90	
Withdrawal rates	See Table A2.2	

Withdrawal from Service: If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

*Table A2.2: Sample withdrawal rates*

Age	Females	Males
20	24%	16%
25	24%	16%
30	18%	12%
35	15%	10%
40	10%	8%
45	6%	6%
50	4%	4%
55	2%	2%
> 55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018	2017
R	R

Table A3.1 Past year and future projected Liability

	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
<b>Opening Accrued Liability</b>	<b>3,737,781</b>	<b>4,020,637</b>	<b>4,019,188</b>
Current-Service Cost	341,241	370,161	401,736
Interest Cost	297,140	314,305	323,335
Expected Benefits Vesting	* (423,535)	(685,915)	(466,807)
<b>Total Annual Expense</b>	<b>214,846</b>	<b>(1,449)</b>	<b>258,264</b>
Actuarial Loss / (Gain)	68,010		
<b>Closing Accrued Liability</b>	<b>4,020,637</b>	<b>4,019,188</b>	<b>4,277,452</b>

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# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>20. Investment revenue</b>		
Interest earned - external investments	9,777,018	7,896,117
<b>21. Service charges</b>		
Sale of electricity	104,622,247	101,576,801
Refuse removal	13,394,209	25,485,068
Other services charges	691,299	1,534,169
	<b>118,707,755</b>	<b>128,596,038</b>
<b>22. Revenue</b>		
Service charges	118,707,755	128,596,038
Rental of facilities and equipment	1,410,249	1,269,273
Licences and permits	3,216,351	3,044,570
Other income	3,521,649	796,277
Interest earned -external investment	9,777,018	7,896,117
Property rates	94,601,966	80,710,506
Interest earned - outstanding receivables	4,042,254	4,983,822
Debtors impairment recovery	692,302	6,084,455
Government grants & subsidies	98,616,459	83,379,899
Public contributions and donations	-	17,000
Fines and Penalties	1,868,627	1,678,102
Fines impairment recovery	1,636,104	1,207,844
Recovery of provision	2,299,741	715,461
	<b>340,390,475</b>	<b>320,379,364</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	118,707,755	128,596,038
Rental of facilities and equipment	1,410,249	1,269,273
Licences and permits	3,216,351	3,044,570
Other income	3,521,649	796,277
Interest earned - external investment	9,777,018	7,896,117
	<b>136,633,022</b>	<b>141,602,275</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	94,601,966	80,710,506
Interest earned - outstanding receivables	4,042,254	4,983,822
Debtors impairment recovery	692,302	6,084,455
<b>Transfer revenue</b>		
Government grants & subsidies	98,616,459	83,379,899
Public contributions and donations	-	17,000
Fines and Penalties	1,868,627	1,678,102
Greenest Municipality Award	1,636,104	1,207,844
Recovery of provision	2,299,741	715,461
	<b>203,757,453</b>	<b>178,777,089</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>23. Rental of facilities and equipment</b>		
Rental of facilities	1,410,249	1,264,828
Advertising	-	4,445
	<b>1,410,249</b>	<b>1,269,273</b>
<b>24. Other revenue</b>		
Parking fees	409,482	-
Building plan fees	411,779	318,963
New connections	772,047	-
Insurance refund	1,237,343	477,314
Other income	690,998	-
	<b>3,521,649</b>	<b>796,277</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>25. Property rates</b>		
<b>Actual</b>		
Residential	18,139,660	24,853,106
Commercial	17,911,222	16,737,447
Public service infrastructure	50,552	307,966
Government	50,580,756	47,587,688
Industrial	8,905,549	7,750,192
Agriculture	3,468,491	3,488,149
Sectional titles	1,055,272	992,519
Less: Income forgone	(5,509,536)	(21,006,561)
	<b>94,601,966</b>	<b>80,710,506</b>
Interest received - outstanding receivables	4,042,254	4,983,822
	<b>98,644,220</b>	<b>85,694,328</b>

### Valuations

Residential	1,869,526,750	1,842,797,327
Commercial	555,863,100	552,650,800
Public benefit organisation	37,715,000	37,854,200
Municipal Properties	186,681,900	180,314,500
Government	1,131,983,100	1,128,583,000
Industrial	269,399,100	273,077,400
Agricultural	1,012,723,400	985,058,600
Public service infrastructure	14,547,900	14,029,700
Multipurpose	61,021,500	60,028,500
	<b>5,139,461,750</b>	<b>5,074,394,027</b>

Valuations on land and buildings are performed every five years. The last valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations.

Category	Rate Charge
Agriculture	0.003990
Government	0.042271
Residential	0.016627
Commercial	0.032971
Industrial	0.032971
Public Service Infrastructure	0.003990
Municipal	0.016627
Indigent	0.016627
Pensioners	0.016627
Public benefit org	0.003990
Place of worship	0.016627

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	47,250,000	45,887,500
FMG	1,800,000	1,725,000
Sport and Recreation	1,497,376	143,575
SETA	-	4,773,407
Expanded Public Works Programme	1,000,000	1,619,000
Furniture World	1,267,663	-
Arts and Culture	1,757,887	1,687,000
	<b>54,572,926</b>	<b>55,835,482</b>
<b>Capital grants</b>		
Small Towns Rehabilitation	11,703,405	3,523,893
Intergrated National Electrification Programme	9,749,128	2,495,524
Municipal Infrastructure Grant	22,591,000	21,525,000
	<b>44,043,533</b>	<b>27,544,417</b>
	<b>98,616,459</b>	<b>83,379,899</b>
<b>Equitable Share</b>		
In terms of the Constitution this grant is used to subsidise the provision of basic services to indigent community members.		
Conditional grants received	47,250,000	45,887,500
Transferred to revenue	(47,250,000)	(45,887,500)
	-	-
<b>Financial Management Grant - FMG</b>		
Current-year receipts	1,800,000	1,725,000
Conditions met - transferred to revenue	(1,800,000)	(1,725,000)
	-	-
This grant is used for implementation of MFMA, finance reforms and payment of intern's salaries.		
<b>Municipal Infrastructure Grant - MIG</b>		
Current-year receipts	22,591,000	21,525,000
Conditions met - transferred to revenue	(24,116,701)	(21,525,000)
<b>Transferred to debtor</b>	<b>(1,525,701)</b>	<b>-</b>
This grant is used for for road infrastructure as part of upgrading of infrastructure projects.		
<b>Small Town Rehabilitation</b>		
Balance unspent at beginning of the year	12,026,847	3,550,740
Current-year receipts	-	12,000,000
Conditions met - transferred to revenue	(11,703,405)	(3,523,893)
	<b>323,442</b>	<b>12,026,847</b>

Conditions still to be met - remain liabilities (see note 15).

This grant is used for development in town like upgrading sidewalks, parkings and storm water drainage.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Peoples Housing Project 12 &amp; 13</b>		
Balance unspent at beginning of the year	27,984	27,376
Current-year receipts	159	608
	<b>28,143</b>	<b>27,984</b>
Conditions still to be met - remain liabilities (see note 15).		
This grant is used for upgrading informal settlement areas within the Municipality.		
<b>Horseshoe Township</b>		
Balance unspent at beginning of the year	1,421,935	1,352,108
Current-year receipts	54,484	69,827
	<b>1,476,419</b>	<b>1,421,935</b>
Conditions still to be met - remain liabilities (see note 15).		
This grant is used for upgrading informal settlement areas within the Municipality.		
<b>Arts and culture</b>		
Current-year receipts	1,758,000	1,687,000
Conditions met - transferred to revenue	(1,757,887)	(1,687,000)
	<b>113</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
This grant is used for the provision of staffing costs for Library services within the Municipality.		
<b>Sports and Recreation</b>		
Balance unspent at beginning of the year	123,351	266,926
Current-year receipts	1,374,025	-
Conditions met - transferred to revenue	(1,497,376)	(143,575)
	<b>-</b>	<b>123,351</b>
This grant is used for upgrading and maintenance of Sport field.		
<b>Community Participation Grant</b>		
Balance unspent at beginning of the year	85,672	85,672
This grant is for IDP compilation and processes.		
<b>EPWP</b>		
Current-year receipts	1,000,000	1,619,000
Conditions met - transferred to revenue	(1,000,000)	(1,619,000)
	<b>-</b>	<b>-</b>
EPWP Grant is used to expand job creation efforts in specific focus areas where labour intensive delivery methods can be measured		



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Shayamoya eco complex</b>		
Balance unspent at beginning of the year	31,743	31,743
Grant is used to boost local economic tourism and the environment		
<b>Light industrial park</b>		
Balance unspent at beginning of the year	177,382	177,382
Grant is used to build infrastructure to boost small to medium businesses		
<b>Furniture World</b>		
Balance unspent at beginning of the year	98,395	-
Current-year receipts	1,395,680	3,272,587
Conditions met - transferred to revenue	(1,267,662)	(3,174,192)
	<b>226,413</b>	<b>98,395</b>
The Grant is used to provided on the job training for the youth , capacitating them for job readiness		
<b>SETA</b>		
Balance unspent at beginning of year	(1,741,239)	(420,128)
Current-year receipts	1,275,919	1,599,215
Conditions met - transferred to revenue	(969,176)	(2,920,326)
<b>Transferred to debtor</b>	<b>(1,434,496)</b>	<b>(1,741,239)</b>
The Grant is used to provided on the job training for the youth , capacitating them for job readiness		
<b>Energy Efficiency Grant</b>		
Balance unspent at beginning of the year	-	2,831,500
Withdrawn	-	(2,831,500)
	-	-
Grant is used to provide municipality with alternative energy solutions enabling energy efficiency		
<b>Intergrated National Electrification Programme</b>		
Balance unspent at beginning of year	4,477	-
Current-year receipts	10,000,000	2,500,000
Conditions met - transferred to revenue	(9,749,128)	(2,495,523)
	<b>255,349</b>	<b>4,477</b>
Conditions still to be met - remain liabilities (see note 15).		
This grant is used for the upgrade of bulk electricity infrastructure		

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Cultural Village (Cogta)</b>		
Current-year receipts	5,000,000	-
Conditions still to be met - remain liabilities (see note 15).		
This grant is used to boost the local tourism sector		
<b>Emergency Equipment Grant</b>		
Current-year receipts	6,000,000	-
Conditions met - transferred to revenue	(1,569,390)	-
	<b>4,430,610</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
This grant is used to equip the municipalities Fire fighting capabilities and response to disasters		
<b>27. Public contributions and donations</b>		
Donations Received	-	17,000
<b>28. Employee related costs</b>		
Basic	61,418,539	61,668,852
Bonus	4,604,610	4,002,907
Medical aid - company contributions	4,422,944	4,492,447
UIF	554,741	519,496
SDL	878,766	769,495
Leave pay provision	2,024,036	1,183,314
Pension fund	11,229,151	11,041,429
Travel, motor car, accommodation, subsistence and other allowances	4,075,343	3,684,831
Overtime payments	5,281,210	4,299,415
Long-service awards	-	163,070
Housing benefits and allowances	1,739,534	1,153,418
Performance bonus	2,514,652	2,775,582
Interest on post employment benefits	1,192,019	1,655,662
Current Service Cost	546,298	885,423
	<b>100,481,843</b>	<b>98,295,341</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	828,000	112,909
Car Allowance	261,554	50,365
Contributions to UIF, Medical and Pension Funds	24,000	7,273
Cellphone, rural and other allowances	106,748	10,656
Bonus/13th Cheque	29,833	-
	<b>1,250,135</b>	<b>181,203</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>28. Employee related costs (continued)</b>		
<b>Remuneration of Chief Financial Officer - TL Mketsu</b>		
Annual Remuneration	613,988	592,638
Car Allowance	219,242	211,313
Cellphone Allowance	14,400	14,864
Contributions to UIF, Medical and Pension Funds	41,764	43,273
Rural Allowance	37,511	36,878
Bonus/13th Cheque	11,735	-
	<b>938,640</b>	<b>898,966</b>
<b>Remuneration of Community Services Manager - N Msiya - 01/07/2018 - 31/10/2017</b>		
Annual Remuneration	157,750	576,414
Car Allowance	46,650	177,277
Cellphone Allowance, rural and other allowances	36,198	134,668
Contributions to UIF, Medical and Pension Funds	33,675	130,776
Leave and backpay	101,547	-
	<b>375,820</b>	<b>1,019,135</b>
<b>Remuneration of Corporate Services Manager - Mngoma - 01/07/2017 - 31/10/2017</b>		
Annual Remuneration	154,401	564,667
Car Allowance	50,909	176,000
Contributions to UIF, Medical and Pension Funds	36,591	126,500
Cellphone, rural and other allowances	20,281	73,525
Leave and backpay	52,075	-
	<b>314,257</b>	<b>940,692</b>
<b>Remuneration of Infrastructure Planning and Development Manager - SM Dondo</b>		
Annual Remuneration	150,399	-
Car Allowance	37,600	-
Cellphone Allowance	3,327	-
Rural Allowance	7,520	-
	<b>198,846</b>	<b>-</b>
<b>Remuneration of Corporate Services Manager - PN Makoba</b>		
Annual Remuneration	153,109	-
Car Allowance	8,318	-
Cellphone, rural and other allowances	24,711	-
Bonus/13th Cheque	12,708	-
	<b>198,846</b>	<b>-</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>29. Remuneration of councillors</b>		
Mayor	836,713	762,871
Former Mayor	-	100,310
Deputy Mayor	677,531	551,888
Speaker	677,531	627,922
Executive Committee Member	203,291	325,835
Former Executive Committee Member	-	43,149
Councillors	2,851,956	2,418,215
Councillors' allowances	1,235,443	770,950
Councillors' pension and medical contributions	487,328	437,164
	<b>6,969,793</b>	<b>6,038,304</b>
<b>In-kind benefits</b>		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties. The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.		
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	34,403,302	25,969,060
Intangible assets	208,929	(5,941)
	<b>34,612,231</b>	<b>25,963,119</b>
<b>31. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	320,463	12,701,868
<b>32. Finance costs</b>		
Fair value adjustments: Notional Interest	-	196,692
Finance leases	22,822	-
Interest on finance lease arrangements	-	301,012
	<b>22,822</b>	<b>497,704</b>
<b>33. Debt impairment</b>		
Debt written off	5,671,925	9,395,958
<b>34. Bulk purchases</b>		
Electricity	84,005,005	80,966,910

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>35. General expenses</b>		
Administration	323,939	128,535
Advertising	1,412,919	838,092
Auditors remuneration	2,272,711	2,379,023
Bank charges	626,444	504,965
Bursaries	87,120	102,383
Collection costs	1,954,930	1,441,559
Conferences and seminars	1,615,630	17,832
Consulting and professional fees	506,237	1,008,304
Departmental electricity consumption	341,126	1,786,877
Fuel and oil	2,732,794	2,358,078
GIS	95,953	243,553
ICT services	2,345,321	1,012,384
Insurance	186,856	1,252,372
Levies	-	6,025
Licence fees	513,541	177,342
Other expenses	9,421,669	6,182,198
Postage and courier	609,025	488,855
Pound management fees	336,000	336,000
Printing and stationery	101,602	290,786
Rental of surveillance cameras	357,957	283,642
Rentals buildings and vehicles	695,439	1,924,335
Spluma	-	242,800
Staff wellness	169,405	125,941
Stocks and materials	854,534	1,091,895
Subscription & memberships	1,909,196	2,100,597
Telephone and fax	1,760,971	2,113,883
Training	271,872	501,322
Travel and accommodation	2,868,478	1,597,993
Uniforms	1,725,042	1,737,828
	<b>36,096,711</b>	<b>32,275,399</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>36. Cash generated from operations</b>		
Surplus	34,049,546	38,511,818
<b>Adjustments for:</b>		
Depreciation and amortisation	34,612,231	25,963,119
Loss sale of assets and liabilities	5,532,283	4,170,389
Fair value adjustments	(1,200,241)	(5,063,217)
Finance costs - Finance leases	22,822	-
Impairment loss	320,463	12,701,868
Debts written off	5,671,925	9,395,958
Movements in retirement benefit assets and liabilities	1,295,565	(4,890,163)
Movements in provisions	(260,930)	691,716
Other non-cash items	(73,835)	1,786,936
Less reversal debtors of impairment	(692,302)	-
Other non-cash items recoveries	3,935,845	-
<b>Changes in working capital:</b>		
Inventory	(676,173)	(281,012)
Vat	(1,287,357)	(1,024,176)
Trade and other receivables	2,634,497	(8,159,021)
Other receivables from non-exchange transactions	(2,001,292)	(4,699,039)
Prepayments	(937,248)	(161,088)
Adjustment to WIP	-	153,456
Payables from exchange transactions	(6,097,615)	(957,721)
Unspent conditional grants and receipts	(1,962,613)	8,505,838
Consumer deposits	25,035	30,659
Current portion of long term loan	(137,940)	-
Deferred income	(3,053,871)	-
	<b>69,718,795</b>	<b>76,676,320</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>37. Commitments</b>		
<b>Already contracted for</b>		
• Infrastructure	98,740,092	42,168,882
• Community	23,619,787	25,718,281
	<b>122,359,879</b>	<b>67,887,163</b>

### Total capital commitments

Already contracted for but not provided for	122,359,879	67,887,163
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

### 38.1 Funding

Expenditure will be financed from.

Government grants	110,530,283	35,443,623
Own revenue	11,829,596	28,383,835
	<b>122,359,879</b>	<b>63,827,458</b>

### 38.2 Operating leases - as lessee (expense)

#### Minimum lease payments due

- within one year	-	118,800
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Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 38. Contingencies

#### Contingent liabilities

##### **Bawinile Veronica Bambelo, Themba Bambelo, Simphiwe Bambelo vs National Minister of Transport, MEC Transport KZN, The Department of Transport Greater Kokstad Local Municipality.**

A claim in respect of loss of support, funeral expenses and damages for loss as result of accident that happened on 12 July 2013 when Muso Samson Bambelo's car hit the unguided pothole and collided with another car and as a result he died. Amount claimed amounts to R669 022.00 plus cost.

##### **Sinkshow Construction vs Greater Kokstad Municipality**

Demand for the return of construction material and currently there is a rescission of Default Judgment granted and the amount claimed is R 150 000.

##### **Greater Kokstad Municipality vs Mbulelo Sibiya**

Motor vehicle accident concerning a claim of an amount of R 150 000.

##### **Greater Kokstad Municipality vs Hoosen Kharvia**

Motor vehicle accident with a claim amount of R 60 000.

##### **Dolly Portia Bihl vs Greater Kokstad Municipality.**

The Applicant is suing the Respondent for unfair Labour Practices, a claim that amounts to R743 144.40. Busin

Business Community vs Greater Kokstad Municipality.

Unprotected march/gathering that occurred on the 16th of May which was a strike granted by the Municipality resulted in a damage of properties and local business community has laid claims amounting to R300 00 for damages to the properties against the municipality

##### **Greater Kokstad Municipality vs Nathoo Mbunyane Engineers, Turf Incorporated and Dura Putt Indoor & Outdoor Turf.**

The Municipality is claiming an amount of R1 748 640 for the upgrading of the Bhongweni Stadium from these stake holders. Turf failed to deliver as a result their contractor was cancelled after being place in MORA by Nathoo Mbuyana Engineering.

#### Contingent assets

##### **Greater Kokstad Municipality vs Torgos.**

The attorneys have been given a status report on the developments in this case and they have briefed Advocate Gani. The prospects of success in this matter were discussed and it was decided that the Municipality will enter into settlement negotiations with the other side to ensure that the Municipality obtains some value. The estimated envisaged cost is R100 000.

##### **Greater Kokstad Municipality vs FEZ Building Construction**

The implementing agent has indicated that they are still awaiting completion of the final account and once same is received the attorneys will be in a position to consult on this matter. The action was instituted to avoid the time clause bar contained in the contract and to protect client's interest. We are awaiting receipt of final account from the principle agent. The envisaged approximate cost is R100 000.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 38. Contingencies (continued)

#### Greater Kokstad Municipality vs Forensic Investigation (Gqola and Nxumalo)

Summons have been issued against former Municipal Manager and former Chief Financial Officer to recover loss of R219 777.49 incurred through them failing to carry discharge their fiduciary duties. Due to the time delay, we may also face issues of lack of evidence by the time this matter reaches the trial stage.

#### Greater Kokstad Municipality vs Ndevu

Summons issued against Ms Ndevu to recover funds in the amount of R128 222 allegedly misappropriated by her during her employment with the Municipality. The Municipality as a result has decided with the Pension Fund Adjudicator to withhold Ms Ndevu's pension benefit amounting to R74 145.24 to ensure that atleast a portion of the Municipality's claim will be satisfied.

### 39. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by it municipality. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The municipality provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	26,973,630	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Derivative financial instruments	502,720	-	-	-

#### Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

### 40. Irregular expenditure

Reconciliation of irregular expenditure

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>40. Irregular expenditure (continued)</b>		
<b>Reconciliation of irregular expenditure</b>		
Opening balance	18,952,280	8,036,676
Irregular expenditure current year	17,206,522	10,915,604
	<b>36,158,802</b>	<b>18,952,280</b>
Protea Consulting	2,878,289	2,760,210
Ultimate Recruitment Solution	388,298	464,409
Zethemba Transport & Plant	565,166	1,109,563
Mahlubi Transport & Plant	9,262,347	3,175,568
Ka-Myaluza	154,344	675,000
Development & Engineering Consultants	1,576,096	482,251
Iqhayiya Design Workshop	432,722	1,457,940
Landis & Gyr	-	362,042
Gagasi FM	-	64,809
Ilizwe Town and Regional Planning	-	148,200
3 B's Supplying and Training	-	23,750
Andimahle Trading Enterprise	1,949,260	176,862
Pesheya Komlanjana	-	15,000
	<b>17,206,522</b>	<b>10,915,604</b>
The irregular expenditure above is as a result of non-compliance with supply chain management regulations. The council has instructed internal audit to investigate and the report has been tabled to the council and submitted to the disciplinary board for processing. Also submitted to Provincial and National Treasury for processing.		
<b>41. Fruitless and wasteful expenditure</b>		
Opening balance	568,374	360,375
Add: Fruitless and Wasteful Expenditure - current year	16,247	207,999
	<b>584,621</b>	<b>568,374</b>
<b>Analysis of fruitless and wasteful expenditure</b>		
Fruitless and wasteful expenditure incurred was also subjected to investigation which the report was also submitted to the council.		
Auditor General interest	-	6,558
Department of Labour non-compliance	-	50,000
Eskom interest	-	2,545
SARS interest	1,616	106,421
Sisonke District Municipality penalties	95	17,756
Telkom	14,536	24,719
	<b>16,247</b>	<b>207,999</b>
<b>42. Deviation from supply chain management regulations</b>		
Original dealer	32,661	796,361
Emergency	19,215	181,944
Other	7,252,704	709,343
Acquisition of special work of art or historic objects where specifications are difficult to compile	850,000	-
<b>Total Section 36 deviations for the financial year</b>	<b>8,154,580</b>	<b>1,687,648</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>43. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>44.1 Contributions to organised local government</b>		
Current year subscription / fee	1,196,816	1,118,520
Amount paid - current year	(1,196,816)	(1,118,520)
	-	-
<b>44.2 Audit fees</b>		
Current year subscription / fee	1,765,708	2,183,283
Amount paid - current year	(1,765,708)	(2,183,283)
	-	-
<b>44.3 PAYE, UIF &amp; SDL</b>		
Current year subscription / fee	14,889,054	12,542,319
Amount paid - current year	(14,889,054)	(12,542,319)
	-	-
<b>44.4 Pension and Medical Aid Deductions</b>		
Current year subscription / fee	24,183,011	22,332,353
Amount paid - current year	(24,183,011)	(22,332,353)
	-	-
<b>44.5 Councillors' arrear consumer accounts</b>		
No Councillors had arrear accounts outstanding at 30 June 2018.		

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>43. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>44.6 Award to close family member</b>		
None has been awarded to a close family member in the current year.		
<b>44. Electricity losses</b>		
2018		
The municipality has identified electricity losses in units 8,832,674.08 with an estimated value of R 8,497,032.46.		
2017		
The municipality has identified electricity losses in units 7 813 709.12 with an estimated value of R 7 012 803.94.		
<b>45. In-kind donations and assistance</b>		
Provincial Treasury provided assistance in:		
- Contract management		
- SCM compliance assessment		
- SCM bid committee training		
<b>46. Events after the reporting date</b>		
None has been identified.		
<b>47. Related parties</b>		
Councillors and key management remuneration		refer to note 27,28 and 40.5

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 48. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Recoverable amounts of property, plant and equipment  
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)  
Present value of defined benefit obligation  
Fair value of plan assets  
Provision for doubtful debts  
Impairment of assets  
Provision for long-term service award

### 49. Budget Variance Explanation

Investment income - Increase investment income is due to council investments.

An increase in other income is due to disclosure of non cash receipts such as Debt impairment, which has decreased as result of vigorous debt collection strategies.

1. Employee costs remuneration budgeted for the postd that were ended up not being filled. Employee costs has decreased as a result of savings from senior managers and managers resignations. budgeted for the postd that were ended up not being filled.

2. Councilors remuneration was initially budgeted for at 7% however when the MEC for Cogta approved salaries.

3. Debt impairment that was approved was only for qualifying debtors.

3. Depreciation, during the financial year there has been a delay in terms of procurement and infrastructure development.

4. Finance charges, the capital amount that was outstanding was fully paid in November

5. Bulk purchase, there has been a decrease in terms of electricity consumption by consumers.

6. Contracted services, most of municipal projects were implemented internally without use of consultants.

7. Services charges, there has been a reduction in collection of skip bins as a result of private contractors.

8. Interest from investments, the increase is due to additional grants recieved during the financial year and we were not eligible to utilise due to SCM process, funds were transferred during the third quater and we could not finalise the SCM processes as these were infrastructural projects which requires planning.

9. Own revenue has increased as result of non-cash items included.

### 50. Contracted services

Maintenance of Unspecified Assets	12,069,530	10,489,387
Financial Management Systems	4,060,212	3,389,151
Legal Advice and Litigation	2,176,488	1,645,248
Professional Services	3,932,907	1,539,534
Burial services	318,600	-
Valuation services	2,019,120	105,263
Security services	6,189,694	3,463,376
Town planning services	404,880	-
Research and Advisory	401,062	-
Landfill site maintenance	2,181,766	2,916,080
	<b>33,754,259</b>	<b>23,548,039</b>

### 51. Financial instruments disclosure

#### Categories of financial instruments

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>51. Financial instruments disclosure (continued)</b>		
<b>2018</b>		
<b>Financial assets</b>		
	At cost	Total
Trade and other receivables from exchange transactions	28,927,001	28,927,001
Other receivables from non-exchange transactions	16,937,121	16,937,121
Cash and cash equivalents	114,262,305	114,262,305
Prepayments	1,372,586	1,372,586
Inventories	1,501,209	1,501,209
Vat recievable	2,311,533	2,311,533
	<b>165,311,755</b>	<b>165,311,755</b>
<b>Financial liabilities</b>		
	At cost	Total
Trade and other payables from exchange transactions	30,210,341	30,210,341
Consumer deposits	4,198,996	4,198,996
Unspent conditional grants and receipts	12,035,172	12,035,172
Provisions	2,514,652	2,514,652
Deferred income	5,279,478	5,279,478
	<b>54,238,639</b>	<b>54,238,639</b>
<b>2017</b>		
<b>Financial assets</b>		
	At cost	Total
Inventories	1,501,209	1,501,209
Trade and other receivables from exchange transactions	28,927,001	28,927,001
Other receivables from non-exchange transactions	16,937,121	16,937,121
Cash and cash equivalents	114,262,305	114,262,305
Prepayments	1,372,584	1,372,584
	<b>163,000,220</b>	<b>163,000,220</b>
<b>Financial liabilities</b>		
	At cost	Total
Deferred income	5,279,478	5,279,478
Trade and other payables from exchange transactions	30,210,341	30,210,341
Consumer deposits	4,198,341	4,198,341
Provisions	2,514,652	2,514,652
Unspent conditional grants and receipts	12,035,172	12,035,172
VAT payable	661,217	661,217
	<b>54,899,201</b>	<b>54,899,201</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 52. Municipal Standard Chart of Accounts (mSCOA) Reclassification

#### Reclassifications

##### Reclassification

The draft annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption and implementation of the Municipal Standard Chart of Accounts (mSCOA) which regulates standard classification of municipal budget and financial information.

The aggregate effect of the implementation of the Municipal Standard Chart of Accounts (mSCOA) on the draft annual financial statements for the year ended 30 June 2017 is as follows:

##### Contracted services

Reclassification	-	21,139,373
Reclassify in from auditors remuneration	1,539,535	-
Reclassify in from bank charges	193,646	-
Reclassify in from bursaries	15,263	-
Reclassify in from collection costs	513,371	-
Reclassify in from conferences and seminars	1,525,033	-
Reclassify in from consulting and professional fees	243,495	-
Reclassify in from ICT services	12,886,854	-
Reclassify in from rentals	707,084	-
Reclassify in from other expenses	3,515,092	-
	<b>21,139,373</b>	<b>21,139,373</b>

##### General expenses

Opening balance previously reported	-	56,317,210
Less: Reclassification	-	(21,139,373)
Reclassify out to contracted services	21,139,373	-
	<b>21,139,373</b>	<b>35,177,837</b>